

No. 6951

**In the United States Circuit Court of
Appeals for the Ninth Circuit**

ALMA I. WAGNER, EXECUTRIX OF THE ESTATE OF
ROBERT G. WAGNER, DECEASED, PETITIONER

v.

COMMISSIONER OF INTERNAL REVENUE, RESPONDENT

UPON PETITION TO REVIEW AN ORDER OF THE UNITED
STATES BOARD OF TAX APPEALS

BRIEF FOR RESPONDENT

G. A. YOUNGQUIST,
Assistant Attorney General.

A. H. CONNER,
JOHN G. REMEY,
MORTON K. ROTHSCHILD,

Special Assistants to the Attorney General.

C. M. CHAREST,
General Counsel, Bureau of Internal Revenue,

JOHN R. GASKINS,
*Special Attorney, Bureau of Internal Revenue,
Of Counsel.*

FILED

DEC - 5 1932

PAUL P. O'BRIEN,

CLERK



INDEX

	Page
Previous opinion.....	1
Jurisdiction.....	1
Question presented.....	2
Statute involved.....	2
Statement of facts.....	2
Summary of argument.....	6
Argument:	
The Board of Tax Appeals did not err in its conclusion that there was no evidence to show that the Commissioner's determination was erroneous.....	7
Conclusion.....	16

CITATIONS

Cases:

<i>American Trust Co. v. Commissioner</i> , 31 F. (2d) 47.....	9
<i>Am-Plus Storage Battery Co. v. Commissioner</i> , 35 F. (2d) 167..	10
<i>Anchor Co. v. Commissioner</i> , 42 F. (2d) 99.....	9
<i>Aronson v. Orlov</i> , 228 Mass. 1.....	14
<i>Balaban & Katz Corp. v. Commissioner</i> , 30 F. (2d) 807....	10
<i>Burnet v. Houston</i> , 283 U. S. 223.....	9
<i>Commissioner v. Langwell Real Estate Corp.</i> , 47 F. (2d) 841..	9
<i>Continental Paper Bag Co. v. Eastern Paper Bag Co.</i> , 210 U. S. 405.....	14
<i>Crown Die & Tool Co. v. Nye Tool & Machine Works</i> , 261 U. S. 24.....	14
<i>Durham v. Seymour</i> , 161 U. S. 235.....	14
<i>Grand Rapids Store Equipment Corp. v. Commissioner</i> , 59 F. (2d) 914.....	10
<i>Green's Advertising Agency v. Blair</i> , 31 F. (2d) 96.....	9
<i>Guy v. Commissioner</i> , 35 F. (2d) 139.....	11
<i>Louisville Cooperage Co. v. Commissioner</i> , 47 F. (2d) 599....	10
<i>Loyd v. Chapman</i> , 93 Fed. 599.....	8
<i>Matern v. Commissioner</i> , No. 6775, decided Nov. 14, 1932..	10
<i>Nichols v. Commissioner</i> , 44 F. (2d) 157.....	9
<i>Prentice v. Stearns</i> , 113 U. S. 445.....	7
<i>Reed v. Anderson</i> , 236 Fed. 345.....	8
<i>Universal Steel Co. v. Commissioner</i> , 46 F. (2d) 908.....	9
<i>Williams v. Commissioner</i> , 45 F. (2d) 61.....	10

Statute:

Revenue Act of 1918, c. 18, 40 Stat. 1057, Sec. 202.....	2
--	---

**In the United States Circuit Court of
Appeals for the Ninth Circuit**

No. 6951

ALMA I. WAGNER, EXECUTRIX OF THE ESTATE OF
Robert G. Wagner, Deceased, petitioner

v.

COMMISSIONER OF INTERNAL REVENUE, RESPONDENT

*UPON PETITION TO REVIEW AN ORDER OF THE UNITED
STATES BOARD OF TAX APPEALS*

BRIEF FOR RESPONDENT

PREVIOUS OPINION

The only previous opinion in this case is that of the Board of Tax Appeals (R. 18-21) which is reported in 23 B. T. A. 879.

JURISDICTION

This appeal involves a deficiency in federal income taxes for the calendar year 1920 in the sum of \$13,380.44 (R. 4, 14), and is taken from a decision of the Board of Tax Appeals entered June 29, 1931 (R. 20-21). The case is brought to this

Court by petition for review filed December 16, 1931 (R. 21-25), pursuant to the provisions of the Revenue Act of 1926, c. 27, Sections 1001, 1002, 1003, 44 Stat. 9, 109, 110.

QUESTION PRESENTED

Whether the petitioner has overcome the presumptive correctness of the Commissioner's determination that an invention had no fair market price or value on March 1, 1913.

STATUTE INVOLVED

Revenue Act of 1918, c. 18, 40 Stat. 1057:

SEC. 202. (a) That for the purpose of ascertaining the gain derived or loss sustained from the sale or other disposition of property, real, personal, or mixed, the basis shall be—

(1) In the case of property acquired before March 1, 1913, the fair market price or value of such property as of that date; and

(2) In the case of property acquired on or after that date, the cost thereof * * *.

STATEMENT OF FACTS

The facts as found by the Board of Tax Appeals are as follows (R. 14-18):

The petition is filed in the name of Alma I. Wagner, as executrix of the Estate of Robert G. Wagner, deceased. Robert G. Wagner is hereinafter referred to as the decedent.

The decedent was an individual with office at 830 South Olive Street, Los Angeles, California.

In 1911 the decedent and one Ernest J. Schweitzer were the owners of the stock of the Wagner-Woodruff Corporation, a corporation engaged in the business of manufacturing and selling electric lighting fixtures in Los Angeles. About that time, due to the fact that a new type of gas light was brought out which was very bright, several kinds of indirect electric lighting fixtures appeared on the market. Among these were the Brascolite, manufactured by the St. Louis Brass Works, and the Phoenix Light. Most of the commercial houses—General Electric, Edison Co., and others—were putting in these indirect lighting fixtures. In 1912 and 1913 the Brascolite was the most popular one of these types of fixtures and was in great demand. At that time the Brascolite had been installed in a great many commercial buildings in Seattle, Denver, Salt Lake City, Chicago, Minneapolis, Detroit, and the important Eastern cities. This fixture is still in great demand.

This Brascolite fixture was an indirect lighting unit having a translucent globe inverted and a reflecting pan above it.

In 1912 Schweitzer and the decedent, working in the factory of the Wagner-Woodruff Corporation, invented an indirect electric lighting fixture which they called the Briterlite. This was a lamp

mounted in a globe of translucent material and having above it a downwardly reflecting reflector of curved contour so as to diffuse the light downward. These lights were being manufactured and sold to a very limited extent in 1912 and 1913. In January or February, 1913, the decedent and Schweitzer had obtained a contract for the production and installation of a number of "Briterlite."

Schweitzer and the decedent in the latter part of 1912 consulted Frederick S. Lyon, an attorney at law, who, at that time, had been engaged for about 20 years in practicing exclusively in patent, trademark, and copyright matters, and who had represented decedent in a number of patent matters. Lyon caused an examination of the records of the patent office to be made and rendered to Schweitzer and the decedent an opinion or report as to the patentability of the Briterlite invention. He advised Schweitzer and the decedent that the Briterlite did not infringe the original Guth patent, which was the patent covering the Brascolite. The Guth patent had been originally in litigation and the original claims were held to a certain limitation. Subsequently an application was made by the owner of the Guth patent for a reissue or amended patent on the Guth invention and a reissue was granted. The result was that while the Guth patent was sustained generally the rights of the decedent and Schweitzer could not be cut off because they were

intervening rights, the decedent and Schweitzer having invested their money, made their application for patent, and gone into actual manufacture of the Briterlite. Decedent and Schweitzer were thus able to continue in the manufacture and sale of the Briterlite without regard to the fact that the reissue of the Guth patent shut out others who were not licensed. The only fixture in competition with the Brascolite and which did not infringe the Guth patent was the Briterlite, because of the intervening rights of the decedent and Schweitzer.

One of the material differences between the Briterlite and the Brascolite was that the upper reflecting surface of the Brascolite or Guth patent was flat. The original Guth patent was limited to a flat upper reflecting surface and to the patent arrangement of the other reflecting surfaces with relation to it. The Briterlite differed essentially in that it had a curved pan at the top. It was not within the scope of the original Guth patent although the reissued Guth patent did not limit the Guth invention in that same manner. The Briterlite also had three hooks on the bowl and the bowl could be more easily removed than the bowl on the Brascolite. The Briterlite was an improvement over other fixtures of the same type and could be sold readily in competition with them.

An application for patent covering the Briterlite fixtures was filed some time during the year

1914, and a patent was thereafter granted about September 21, 1915.

The Briterlite was made in about eight different sizes and styles. In 1913 the best seller sold for from \$18 to \$20. In computing the sales list price for the Briterlite the cost of labor and material was taken as a basic cost and 50 per cent of this amount added for overhead. The retail selling price was double that amount.

In 1920 the demand for these indirect lighting fixtures was not as great because a new type of glass had been invented which was thin in texture so as to allow maximum rays of light to pass entirely through the glass. This was very cheap to market.

In 1920 the decedent and Schweitzer sold the patent on the Briterlite fixture to the Wagner-Woodruff Corporation for \$85,000. They each owned a one-half interest in this patent. The respondent determined that the decedent derived an income from this transaction in the amount of \$42,500.

The Board approved the Commissioner's determination and the petitioner appeals.

SUMMARY OF ARGUMENT

The filing of an amended assignment of errors is not permitted under the rules of this Court. Consequently the only question before the Court is whether upon the facts as found there was error in giving judgment for the respondent.

In any event the Commissioner's determination was prima facie correct and it was the petitioner's burden to prove error. The invention here to be valued had not been patented nor had an application for patent been filed on or before March 1, 1913. The evidence adduced on behalf of the petitioner was of opinion character and the weight to be given to such evidence is a matter solely for the judgment of the Board. No facts are found in the record to support the opinion testimony offered. Under these circumstances the Board correctly approved the Commissioner's determination that the invention had no value on the basic date.

ARGUMENT

The Board of Tax Appeals did not err in its conclusion that there was no evidence to show that the Commissioner's determination was erroneous

Petitioner has assigned error in the Board's finding as to the fact of value but has failed to set forth in the assignment of errors the evidence relied upon. In such a case an appellate court is necessarily restricted to the question whether upon the facts as found there was error in giving judgment for the respondent. *Prentice v. Stearns*, 113 U. S. 445. The petitioner attempted to correct this omission by filing amended assignment of errors in this Court approximately eleven months after the petition for review was filed. This practice is

not in accord with Rule 11 of this Court. The rule provides:

When the error alleged is to the admission or to the rejection of evidence, the assignment of errors shall quote the full substance of the evidence admitted or rejected. * * * Such assignment of errors shall form part of the transcript of the record and be printed with it. When this is not done, counsel will not be heard, except at the request of the court; and errors not assigned according to this rule will be disregarded, but the Court, at its option, may notice a plain error not assigned.

This Court has required strict adherence to this rule. *Loyd v. Chapman*, 93 Fed. 599. The same is true in other circuits. *Reed v. Anderson*, 236 Fed. 345 (C. C. A. 8th), and cases cited therein. It is submitted that the instant case is one calling for the application of this rule, as it is obvious that the errors attempted to be assigned by the proposed amendment do not come within the only exception named in the rule.

The errors attempted to be assigned in the proposed amendment relate to the action of the Board in sustaining the objection of the respondent to all opinion testimony as to the March 1, 1913, value. If these assignments are not considered by the Court there remains no evidence in the record as to the March 1, 1913, value, but even if such assign-

ments of error should be considered by the Court and the conclusion is reached that the Board erred in sustaining the objection to the opinion testimony of the various witnesses as to value, we submit that evidence of such a character would not warrant this Court in reversing the action of the Board.

Petitioner contends that the "Briterlite" invention had a value of \$100,000 on March 1, 1913. It is submitted that no evidence was introduced before the Board to overcome the Commissioner's determination that the invention had no value on that date.

The Commissioner's determination is prima facie correct. *American Trust Co. v. Commissioner*, 31 F. (2d) 47 (C. C. A. 9th); *Anchor Co. v. Commissioner*, 42 F. (2d) 99 (C. C. A. 4th). And the burden is upon the petitioner to prove that such determination is erroneous. *Burnet v. Houston*, 283 U. S. 223; *Green's Advertising Agency v. Blair*, 31 F. (2d) 96 (C. C. A. 9th). The prima facie correctness of that determination can be overthrown only by a satisfactory proof of error (*Universal Steel Co. v. Commissioner*, 46 F. (2d) 908 (C. C. A. 3d)), or by substantial evidence (*Nichols v. Commissioner*, 44 F. (2d) 157 (C. C. A. 3d)). It would thus have been error for the Board to overthrow the Commissioner's determination in the absence of proof sufficient to support a finding contrary to the Commissioner's determination. *Commissioner v.*

Langwell Real Estate Corporation, 47 F. (2d) 841 (C. C. A. 7th); *Williams v. Commissioner*, 45 F. (2d) 61 (C. C. A. 5th); *Louisville Cooperage Co. v. Commissioner*, 47 F. (2d) 599 (C. C. A. 6th). This Court stated in *Matern v. Commissioner*, No. 6775, decided November 14, 1932:

In other words, the presumption of correctness is attached to the Commissioner's findings. The Board of Tax Appeals, after weighing the evidence, found that such evidence was not sufficient to rebut the presumption. The duty of weighing the evidence rests upon the Board, and not upon this Court.

To overthrow this presumption petitioner relied solely upon opinion evidence. The Board is not obligated to accept opinion evidence as to value. *Grand Rapids Store Equipment Corporation v. Commissioner*, 59 F. (2d) 914 (C. C. A. 6th); *Am-Plus Storage Battery Co. v. Commissioner*, 35 F. (2d) 167 (C. C. A. 7th); *Anchor Co. v. Commissioner*, *supra*. In *Balaban & Katz Corporation v. Commissioner*, 30 F. (2d) 807 (C. C. A. 7th), it was said (p. 808):

Opinion evidence, to be of any value, should be based either upon admitted facts or upon facts, within the knowledge of the witness, disclosed in the record. Opinion evidence that does not appear to be based upon disclosed facts is of little or no value. The

opinion witnesses here were almost wholly without facts to support their conclusions, and it was within the province of the Board to disregard the opinion evidence and base its opinion upon the facts in the record before it.

The case of *Guy v. Commissioner*, 35 F. (2d) 139 (C. C. A. 4th), is to the same effect. Similarly in the instant case the opinion testimony is based neither upon admitted facts nor upon facts disclosed in the record. It should be noted that this proceeding does not involve the determination of the March 1, 1913, value of a patent, a patented invention or an invention for which an application had been filed on or before March 1, 1913. Application for patent was filed in December, 1914, and the patent was granted September 21, 1915. (R. 7, 87.) Yet the witness Gordon assumed that the article to be valued was a patent. (R. 63-65.) Witness Fugate's testimony dealt with the exclusive "right to manufacture" a fixture such as the "Briterlite." (R. 72-73.) Of course, petitioner had no such right to sell on March 1, 1913. The witness also erroneously assumed that a patent was being valued (R. 76-77), and when asked whether he would have given \$100,000 for the invention if there had been any doubt about the issuance of a patent and the exclusive right to manufacture and sell, he replied, "I think that point would have

had to have been cleared up, sir" (R. 77). The opinion of Witness Cooley discloses that he had in mind the value of the privilege of exclusive manufacture of a patented invention or one whose patent was assured. (R. 86-87.)

The record is very meager as to the extent to which the "Briterlite" fixture was being manufactured, sold, and distributed on March 1, 1913. Witness Lyon testified that there was but one commercial installation prior to the summer of 1913. (R. 34.) The co-inventor of the "Briterlite" fixture testified that he did not know without observing the records the extent of the manufacture of the "Briterlite" up to March 1, 1913. (R. 51.) It is a fair inference that had the fixture been manufactured to any extent at the basic date the records would have been introduced in evidence. Mr. Fugate testified that the majority of the new jobs which had been installed in January and February of 1913 were of the indirect type (R. 74-76), but this does not necessarily mean that the "Briterlite" fixture was the type installed. There were at least three other lights of the "Briterlite" class being manufactured at that time. (R. 83.) Thus on the very important element of the extent of the sales we find the evidence to be so vague as to be of little help in determining the value of the invention. Even the cost of developing the invention is not shown in the evidence.

On the question of the fair market value of the invention as of March 1, 1913, Mr. Schweitzer limited his testimony to the price which he and his co-inventor had agreed represented the value of the invention to themselves. (R. 49-50.) This testimony was given subject to respondent's objection, which was later sustained. But even if improperly rejected, clearly this is no indication of market value. The other witnesses, as shown above, had in mind a patented article or an exclusive right to manufacture, neither of which is here involved. In this connection it should be noted that there was on March 1, 1913, a patented invention, the "Brascolite," which was quite similar to the "Briterlite," and it was not until after that date that the limitations of the patent covering the former were clearly defined. This, no doubt, accounts for the reservation found in the testimony of all the witnesses that their opinion of the value of the invention was predicated upon an assured patent.

It is submitted that a careful review of the opinion testimony will disclose no facts upon which a determination of the March 1, 1913, value of the invention could be based. For that reason the Board could have correctly rejected the opinion evidence offered. Under the authorities cited above the weight that was to be given to the testimony was for the Board to decide.

It may be conceded for the purpose of the argument that an invention prior to the issuance of a patent thereon and even prior to the filing of an application for a patent is property capable of being bought and sold. In *Durham v. Seymour*, 161 U. S. 235, the Court said (p. 238):

* * * the discoverer of a new and useful improvement is vested by law with an inchoate right to its exclusive use, which he may perfect and make absolute by proceeding in the manner in which the law requires * * *.

So rights growing out of an invention may be sold, whether the sale in any case carries with it anything of value or not.

But the petitioner argues that decedent's rights as an inventor are tantamount to rights under a patent. (Br. 22.) This does not appear to be a correct statement of the law. A patent gives one the right to exclusive enjoyment of his invention. *Crown Die & Tool Co. v. Nye Tool & Machine Works*, 261 U. S. 24; *Continental Paper Bag Company v. Eastern Paper Bag Company*, 210 U. S. 405. Until the patent is issued there is no exclusive right to use the invention, and the granting of the patent does not retroactively confer the exclusive right back to the date of application.

In *Aronson v. Orlov*, 228 Mass. 1, the court said (p. 28):

No rights exist under a patent until a patent has been granted. It has been decided repeatedly that there can be no recovery in the ordinary case for use of a patented article made before the patent was granted. The inventor has no exclusive right before a patent has been issued to him. The patent is not retroactive to a date prior to the grant. The establishment of the monopoly does not antedate the grant of the patent. That grant is fixed as of its date. *Kirk v. United States*, 163 U. S. 49, 55; *Gaylor v. Wilder*, 10 How. 477, 493; *Marsh v. Nichols, Shepard & Co.*, 128 U. S. 605, 612. *Brown v. Duchesne*, 19 How. 183, 195; *Sargent v. Seagrave*, 2 Curt. 553, 555. The grant of a patent can not be antedated. It takes effect as of the date when actually issued, and not before. *Marsh v. Nichols, Shepard & Co.*, 128 U. S. 605, 616. It is, it seems to us, an unavoidable result from this principle that prior to the issuance of a patent no case can arise under the patent laws respecting the relative rights of parties to or under a patent.

It would thus appear that the inventor's rights are far from being "tantamount to rights under a patent."

CONCLUSION

It is respectfully submitted that the decision of the Board of Tax Appeals is in accordance with the law and should be affirmed.

G. A. YOUNGQUIST,
Assistant Attorney General.

A. H. CONNER,

JOHN G. REMEY,

MORTON K. ROTHSCHILD,

Special Assistants to the Attorney General.

C. M. CHAREST,

General Counsel,

Bureau of Internal Revenue,

JOHN R. GASKINS,

Special Attorney,

Bureau of Internal Revenue,

Of Counsel.

NOVEMBER, 1932.